

## Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

C-R Telephone Company

(ICC Docket Nos. 00-233 & 00-0335 Consolidated)

April 20, 2001

OFFICIAL FILE

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Telephone Co. DATE 6-19-01 PAGE 1.0  
BY           
DATA 6-19-01 REPORTER CB

1   **Q.   PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2   A.   My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,  
3       Inc. GVNW Consulting, Inc.'s principal business is telecommunications  
4       consulting for small independent telephone companies. My business address is  
5       3220 Pleasant Run, Springfield, Illinois 62707.

6

7   **Q.   PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8   A.   I joined GVNW, Inc. on October 20, 1997. In my current position I consult with  
9       independent telephone companies and provide financial analysis and management  
10      advice in areas of concern to these companies. Specific activities include  
11      regulatory analysis, consultation on regulatory policy, financial analysis, market  
12      analysis, rate design and tariff development, long-range strategic planning and  
13      general management consulting services. Previously, I was employed by TDS  
14      TELECOM, as Manager of Revenue and Earnings in the Government and  
15      Regulatory Affairs Group, where my responsibilities were to manage the revenue  
16      and earnings processes, manage the development and implementation of earnings  
17      strategies, and oversee rate cases, regulatory audits, and earnings reviews for the  
18      TDS TELECOM companies. I also assisted in the regulatory review of telephone  
19      company operating and capital budgets, and ensuring that capital recovery  
20      objectives were achieved for TDS TELECOM operating companies.

21

22      In 1988, I began my telecommunications career with TDS, Inc., as an Internal  
23      Auditor. In this position, I conducted both operational and financial reviews of  
24      TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal  
25      Auditor where I took a more active role in managing internal audits for the  
26      company. In 1994, I was promoted to Associate Manager of Accounting in TDS

1 TELECOM. My responsibilities included providing management with monthly  
2 reports on company financial results, troubleshooting and providing support to the  
3 region accounting staffs and helping determine accounting policy and procedures.  
4 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings  
5 in the Government and Regulatory Affairs Group.  
6

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science  
9 Degree in Business with an emphasis in Accounting. I was awarded a Masters in  
10 Business Administration from Edgewood College in 1991.  
11

12 **Q. HAVE YOU TESTIFIED BEFORE?**

13 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate  
14 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango  
15 Telephone Company. I have also put in testimony on behalf of Citizens of  
16 Kecksburg also in Pennsylvania in a rural exemption case.  
17

18 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**

19  
20 A. C-R Telephone Company.  
21

22 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**  
23 **CALCULATIONS FOR C-R TELEPHONE COMPANY USING THE**  
24 **FORMAT AGREED TO BY THE STAFF AND THE IITA BEEN**  
25 **PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**  
26 **SUPERVISION?**  
27

28 A. Yes it has. It is attached as C-R Telephone Company Exhibit 1.0, Schedule 1.01  
29 and consists of three pages.

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**Q. DID YOU COMPLETE C-R TELEPHONE COMPANY'S EXHIBIT 1.0, SCHEDULE 1.01 IN ACCORDANCE WITH THE INSTRUCTIONS AND BASED ON C-R TELEPHONE COMPANY'S ICC FORM 23A OR OTHER INFORMATION FILED BY THE COMPANY WITH THE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2000?**

**A. Yes, C-R Telephone Company's Exhibit 1.0 was based on the ICC Form 23A filed with the Commission.**

**Q. BASED ON THE RESPONSES AND CONTENT OF C-R TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01, IS C-R TELEPHONE COMPANY PROVIDING STAFF WITH CERTAIN ADDITIONAL DOCUMENTS?**

**A. Yes. I am providing the Staff with a copy of C-R Telephone Company's December 31, 2000, Trial Balance.**

**Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM C-R TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TO MR. SCHOONMAKER FOR HIS USE IN COMPILING THE COMPOSITE RESULTS FOR ALL COMPANIES SEEKING FUNDING IN CONNECTION WITH HIS TESTIMONY?**

**A. Yes, I have.**

**Q. IS C-R TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE, INFORMATION AND BELIEF?**

1 A. Yes, it is.

2

3 **Q. HAVE YOU MADE ANY OF THE STANDARD ADJUSTMENTS THAT**  
4 **HAVE BEEN AGREED UPON BETWEEN THE IITA AND STAFF?**

5

6 A. Yes, I have.

7

8 **Q. PLEASE DESCRIBE EACH OF THE ADJUSTMENTS THAT YOU HAVE**  
9 **MADE TO C-R TELEPHONE COMPANY.**

10

11 A. I have made two (2) standard adjustments on C-R Telephone Company's Exhibit  
12 1.0. These adjustments are summarized in Schedule 1.02.

13

14 The first adjustment is standard adjustment #3 as listed in Bob Schoonmaker's  
15 testimony for out-of-period adjustments. C-R received \$240,323 in CCL funding  
16 in 1999 based on projections filed with the National Exchange Carrier Association  
17 in 1999. C-R's 1999 cost study, completed in July 2000, showed a CCL Revenue  
18 Requirement of 264,249. This results in a \$23,926 true-up of 1999 CCL Revenue  
19 that was booked in 2000 revenue. This adjustment removes the \$23,926 of 1999  
20 revenue booked in 2000. Also, C-R received \$119,100 in 1998 for Local  
21 Switching Support Revenue (LSS) based on projections filed with Universal  
22 Service Administration Corporation (USAC). On December 31, 1999 C-R  
23 completed its final 1998 LSS true-up calculation. This calculation showed that C-  
24 R's 1998 draw should have been \$132,930, resulting in a \$13,830 true-up that was  
25 booked in 2000. This adjustment removes the \$13,830 of 1998 revenues booked  
26 in 2000.

27

28 The second adjustment that was made was for an increase in Federal High Cost  
29 Loop (HCL) Revenues that C-R is currently receiving in 2001. This is listed as  
30 standard adjustment #5 in Bob Schoonmaker's testimony. C-R received \$397,419

1 in Federal HCL funding in 2000 per information that appears on quarterly filings  
2 that the Universal Service Administration Corporation (USAC) made with Federal  
3 Communication Commission. Per these same filings for the first two quarters of  
4 2001 annualized, C-R is receiving \$419,334. This results in an increase in Federal  
5 funding of \$21,915 and is a known and measurable increase in C-R's revenue  
6 streams.

7  
8 **Q. HAVE YOU MADE ANY OF NON STANDARD ADJUSTMENTS THAT**  
9 **WERE NOT AGREED UPON BETWEEN THE IITA AND STAFF?**

10  
11 **A.** Yes, I have.

12  
13 **Q. PLEASE DESCRIBE EACH OF THE NON-STANDARD ADJUSTMENTS**  
14 **THAT YOU HAVE MADE TO C-R TELEPHONE COMPANY.**

15  
16 **A.** I have made two (2) non-standard adjustments on C-R Telephone Company's  
17 Exhibit 1.0. These adjustments are summarized in Schedule 1.02.

18  
19 Both of the non-standard adjustments are to remove non-regulated items  
20 appearing in C-R Telephone Company's ICC Form 23A filed with the  
21 Commission. The first adjustment removes \$38,497 of non-regulated revenues  
22 from C-R's Exhibit 1.0, Line 14, Total Operating Revenues. The second  
23 adjustment removes \$23,486 of non-regulated expenses from C-R's Exhibit 1.0,  
24 Line 7 and Line 17, Total Operating Expenses.

25  
26 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**  
27 **OF C-R TELEPHONE COMPANY?**

28  
29 **A.** Yes, it does.

C-R Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000

| <u>Line #</u> | <u>Description</u>                          | <u>Source</u>                     | <u>Amount</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---------------|---|-----------------------------------|---------------|--------------------|------------------------|
| 1             | Net Regulated Plant                         | Form 23A, P 8, Net Plant          | \$ 2,282,689  | \$ -               | \$ 2,282,689           |
| 2             | Materials and Supplies Inventory            | Page 2, 13-Month Average          | 14,966        |                    | 14,966                 |
| 3             | Customer Deposits                           | Form 23A, P 8, 4040               | 4,250         | -                  | 4,250                  |
| 4             | ADIT - Regulated Plant                      | Form 23A, P 8, 4100 + 4340        | 139,101       | -                  | 139,101                |
| 5             | Rate Base before Working Capital            | line 1 + line 2 - line 3 - line 4 |               |                    | 2,154,304              |
| 6             | Working Capital Requirement                 |                                   |               |                    |                        |
| 7             | Total Operating Expenses                    | Form 23A, P 14, Total             | 1,463,631     | (23,486)           | 1,440,145              |
| 8             | Less: Depreciation Expense                  | Form 23A, P 13, 6560              | 282,810       | -                  | 282,810                |
| 9             | Total WC Operating Expense                  | line 7 - line 8                   | 1,180,821     | (23,486)           | 1,157,335              |
| 10            | WC OE Requirement                           | line 9 * 45 / 360                 |               |                    | 144,667                |
| 11            | Commission-Ordered Cash Balance Requirement |                                   | -             | -                  | -                      |
| 12            | Total Working Capital Requirement           | line 10 + line 11                 |               |                    | 144,667                |
| 13            | Total Rate Base                             | line 5 + line 12                  |               |                    | 2,298,971              |
| 14            | Total Operating Revenues                    | Form 23A, P 11, Total             | 1,958,823     | (54,338)           | 1,904,485              |
| 15            | Less: Illinois High Cost Fund               |                                   | 215,861       | -                  | 215,861                |
| 16            | Net Operating Revenues                      | line 14 - line 15                 | 1,742,962     | (54,338)           | 1,688,624              |
| 17            | Total Operating Expenses                    | Form 23A, P 14, Total             | 1,463,631     | (23,486)           | 1,440,145              |
| 18            | Other Operating Inc and Exp - Net           | Form 23A, P 15, 7100              | -             | -                  | -                      |
| 19            | Other Operating Taxes                       | Form 23A, P 15, 7240              | 2,520         | -                  | 2,520                  |
| 20            | Net Op Inc before Income Taxes              | line 16 - lines 17, 18, & 19      | 276,811       | (30,852)           | 245,959                |
| 21            | Income Tax Expense                          | line 34                           |               |                    | 95,282                 |
| 22            | Net Operating Income                        | line 20 - line 21                 |               |                    | 150,677                |
| 23            | Return on Rate Base                         | line 22 / line 13                 |               |                    | 6.55%                  |
| 24            | After-tax Cost of Capital                   |                                   |               |                    | 11.21%                 |
| 25            | Target Net Operating Income                 | line 24 * line 13                 |               |                    | 257,715                |
| 26            | Adj to Achieve Target Return on RB          | line 25 - line 22                 |               |                    | 107,038                |
| 27            | Gross Revenue Conversion Factor             | line 35                           |               |                    | 1.6324                 |
| 28            | ROR Funding Deficiency Including Inc Taxes  | line 26 * line 27                 |               |                    | 174,729                |
| 29            | Calculation of Income Tax Expense           |                                   |               |                    |                        |
| 30            | Net Op Inc before Inc Taxes                 | line 20                           |               |                    | 245,959                |
| 31            | Illinois Inc & Rep Tax Expense              | line 30 * 7.18%                   |               |                    | 17,660                 |
| 32            | Net Op Inc before Fed Inc Tax               | line 30 - line 31                 |               |                    | 228,299                |
| 33            | Federal Income Tax Expense                  | line 32 * 34.00%                  |               |                    | 77,622                 |
| 34            | Total Imputed Income Tax Expense            | line 31 + line 33                 |               |                    | 95,282                 |
| 35            | Gross Revenue Conversion Factor             | 1 / ((1 - .0718) * (1 - .34))     |               |                    | 1.6324                 |

**C-R Telephone Company**  
**Illinois Universal Service Funding Calculation**  
**Based upon ICC Form 23A Report Data for December 31, 2000**  
**Material & Supplies Worksheet and Other Information**

| <u>Line #</u> |                  |          |
|---------------|------------------|----------|
| 1             | December-99      | \$13,127 |
| 2             | January-00       | \$13,169 |
| 3             | February-00      | \$13,169 |
| 4             | March-00         | \$15,738 |
| 5             | April-00         | \$16,132 |
| 6             | May-00           | \$16,113 |
| 7             | June-00          | \$16,113 |
| 8             | July-00          | \$16,113 |
| 9             | August-00        | \$15,675 |
| 10            | September-00     | \$14,680 |
| 11            | October-00       | \$15,006 |
| 12            | November-00      | \$15,190 |
| 13            | December-00      | \$14,333 |
| 14            | 13 Month Average | \$14,966 |

**Sale/Lease Back Arrangement**

- ☒ The company does not have any sale(s)/lease back arrangement.  
☐ The company does have sale(s)/lease back arrangement and has provided additional information to staff.

**Lease Agreement with Affiliates**

- ☒ The company does not have any lease agreements with affiliates.  
☐ The company does have lease agreements with affiliates and has provided additional information to staff.

**Trial Balances**

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.



**C-R Telephone Company**  
**Illinois Universal Service Funding Calculation**  
Based upon ICC Form 23A Report Data for December 31, 2000  
**Operating Revenues By Category**

| <u>Line #</u> |                                     | <u>Source</u>               | <u>Amount</u>       |
|---------------|-------------------------------------|-----------------------------|---------------------|
|               |                                     | Form 23A, P 10, Total Local |                     |
| 1             | Local Revenues                      | Network Service Revenues    | \$ 140,173          |
| 2             | State Subscriber Line Charges       | Trial Balance 12/31/00      | \$ 141,116          |
| 3             | State Access Revenues               | Trial Balance 12/31/00      | \$ 339,611          |
| 4             | State High Cost Support             | Exhibit X, Line 15          | \$ 215,861          |
| 5             | State Special Access Revenues       | Trial Balance 12/31/00      | \$ 4,640            |
| 6             | Total State Access & Local Revenues | Sum (Ln 1 - 5)              | \$ 841,401          |
| 7             | Federal Subscriber Lines Charges    | Trial Balance 12/31/00      | \$ 42,888           |
| 8             | Federal Access Revenues             | Trial Balance 12/31/00      | \$ 333,615          |
| 9             | Federal High Cost Support           | Trial Balance 12/31/00      | \$ 591,967          |
| 10            | Federal Special Access Revenues     | Trial Balance 12/31/00      | \$ 11,527           |
| 11            | Total Federal Access Revenues       | Sum (Ln 7 - 10)             | \$ 979,997          |
| 12            | Misc Revenues                       | Trial Balance 12/31/00      | \$ 137,424          |
| 13            | Total Operating Revenues            | Ln 6 + Ln 11 + Ln 12        | <u>\$ 1,958,822</u> |

C-R Telephone Company  
Summary of Adjustments

Adjustment 3

Dr.

Cr.

|                                 |    |          |
|---------------------------------|----|----------|
| 1999 Projected CCL Revenue Req. | \$ | 240,323  |
| 1999 Final CCL Revenue Req.     | \$ | 264,249  |
| 1999 True-up booked in 2000     | \$ | (23,926) |
| 1998 Projected LSS Revenue      | \$ | 119,100  |
| 1998 Final LSS Revenue          | \$ | 132,930  |
| 1998 True-up booked in 2000     | \$ | (13,830) |

|             |    |        |
|-------------|----|--------|
| CCL Revenue | \$ | 23,926 |
| LSS Revenue | \$ | 13,830 |

Adjustment to remove prior period true-ups

Adjustment 5

|                       |    |         |
|-----------------------|----|---------|
| 2001 HCL Fund Draw    | \$ | 419,334 |
| 2000 HCL Fund Draw    | \$ | 397,419 |
| Increase in HCL funds | \$ | 21,915  |

|                              |    |        |
|------------------------------|----|--------|
| High Cost Loop (USF) Revenue | \$ | 21,915 |
|------------------------------|----|--------|

Adjustment to record 2001 USF Revenue

Adjustment (Non-Standard)

|               |    |        |
|---------------|----|--------|
| Total Revenue | \$ | 38,497 |
| Total Expense | \$ | 23,486 |

Adjustment to remove non-regulated revenues and expenses from Form 23A